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via electronic mail and USPS delivery

Ms. Janette Lopez
Chief Deputy Director
California Managed Risk Medical Insurance Board
1000 G Street, Suite 450
Sacramento, CA 95814

**RE: EVALUATION OF SAFEGUARD HEALTH PLANS, INC. MEDICAL LOSS RATIO
SUBMISSION (REVISED REPORT)**

Dear Ms. Lopez:

The Department of Managed Health Care (DMHC) hereby provides the Managed Risk Medical Insurance Board (MRMIB), Healthy Families Program (HFP), with the following report regarding the evaluation of SafeGuard Health Plans, Inc. (SafeGuard) HFP loss ratio submission for the period July 1, 2005 through June 30, 2006. This report outlines the project objectives, methodology and results.

- I Objectives: The purpose of the loss ratio evaluation was to evaluate the underlying payments supporting the amount reported as benefits provided to HFP subscribers and reported by SafeGuard.

As part of this evaluation, DMHC performed the following:

- A Determined whether 100% of the children who received services paid by SafeGuard were enrolled in the HFP at the time the services were provided
- B Summarized the total benefit payments within the detailed data provided by SafeGuard and compared the total payments to the amount reported on Schedule 6 submitted by SafeGuard
- C Summarized the total payments made by SafeGuard for the HFP subscriber, and based on the steps above, recalculated the loss ratio and compared it to the loss ratio submitted by SafeGuard on Schedule 6

To achieve the objectives outlined above, the DMHC performed data analysis on information provided by the MRMIB and SafeGuard and corresponded with management personnel at SafeGuard. Primary contacts at SLIC were Dennis Gates, CFO; Joe Lai, Accountant. The methodology and results for each of the objectives are described below.

II Methodology

A Determined whether 100% of the children who received services paid by SafeGuard were enrolled in the HFP at the time the services were provided.

- 1 The DMHC obtained electronic files containing Fee-For-Service (FFS) claims and Capitation (Cap) payments made for HFP subscribers. Additionally, the Department obtained electronic files from the MRMIB of all children eligible for whom payments was made for benefits as a SafeGuard subscriber during the period of July 1, 2005 through June 30, 2006.
- 2 Using the two files, the DMHC compared the Client Index Number (CIN) and Date of Service on SafeGuard's FFS and Cap files to determine if there were any payments made by SafeGuard for subscribers that were not eligible for benefits according to the eligibility file received from the MRMIB.

Table 1 – Fee for Service and Capitation payments for individuals that were not listed as eligible members per the data files provided by Maximus for the service periods under examination.

Table 1 (Ineligible Expenditures)

Claims/capitation payments Category	Number of claims/services payments	Dollars	Total Dollars in Database for the Category (footnote 1)	% Error in Database
Total FFS	1,385	\$44,478	\$6,712,003	0.663%
Total Capitation	205,371	\$391,292	\$8,458,871	4.626%

Notes for Table 1: The FFS payment mismatches identified during the examination were determined to be immaterial by the examiner and were not proposed as adjustments for the audit. The Capitation payment mismatches identified during the examination were determined to be material by the examiner and were proposed as adjustments for the audit.

Footnote 1: This analysis represents payments made by the Plan to their contracted providers and not payments made by MRMIB to the Plans.

B. Summarized the total benefit payments within the detailed data provided by SafeGuard and compared the total payments to the amount reported on Schedule 6 submitted by SafeGuard.

Using electronic files and paper documentation received from SafeGuard in Section II above, and SafeGuard's Schedule 6 loss ratio submission provided by MRMIB, DMHC compared the total of the payments on the electronic files and paper documentation to the data reported on Sch 6.

Table 2

Description	Schedule 6	Plan Data	Difference
Total Dental Services Data	\$15,954,597	\$15,171,491	(\$783,106)

Notes for Table 2: The data base provided by SafeGuard was analyzed based on the period of service and has been determined to be the most accurate measure of medical expense for the period of the examination. The data base included a review of costs identified through 6 months after the exam period to ensure capture of all amounts which would have been identified via accruals/IBNRs. The difference between the amounts reported on the Schedule 6 as dental expenses by the Plan and the amounts identified as paid claims per the Plans data base were material and were proposed as adjustments by the examiner.

C. Summarized the total payments made by SafeGuard for the HFP subscriber, and based on the steps above, recalculated the loss ratio and compared it to the loss ratio submitted by SafeGuard on Schedule 6.

Table 3
Detailed reconciliation of detailed data files to Schedule 6

	CATEGORY	REPORTED ON SCHEDULE 6	BALANCE PER DMHC REVIEW	VARIANCE OVER/(UNDER)
	Subscriber Months ^{Note 1}	1,714,632	1,738,921	24,289
1	Premium Payments from State ^{Note 2}	\$22,609,021	\$22,593,899	(\$15,122)
	Affiliated Entities and Nonaffiliated Entities			
2	Incentive Payments to Affiliated Parties	\$0	\$0	\$0
3	Incentive Payments to Nonaffiliated Parties	\$0	\$0	\$0
4	Total Incentive Payments	\$0	\$0	\$0
	Expenses (Health Family Program Only)			
	Dental Services			
5	Preventive Diagnostic ^{Note 3}	\$9,735,021	\$9,551,984	(\$183,037)
6	Restorative ^{Note 3}	\$1,488,974	\$1,333,403	(\$155,571)
7	Major ^{Note 3}	\$4,730,602	\$4,236,336	(\$494,266)
8	Other Services	\$0	\$0	\$0
9	Reinsurance Expenses	\$0	\$0	\$0
10	Incentive Pool Adjustment	\$0	\$0	\$0
11	Total Dental Services (line 5 to line 7)	\$15,954,597	\$15,121,725	(\$832,872)
	Administration:			
12	Compensation	\$3,855,207	\$3,855,207	\$0
13	Interest Expense	\$0	\$0	\$0
14	Occupancy, Depreciation and Amortization	\$1,179,921	\$1,179,921	\$0
15	Management Fees	\$0	\$0	\$0
16	Marketing	\$503,253	\$503,253	\$0
17	Affiliate Administration services	\$0	\$0	\$0
18	Aggregate Write-Ins for Other Administration Expenses	\$561,520	\$561,520	\$0
19	Total Administration (line 12 to line 18)	\$6,099,901	\$6,099,901	\$0
20	Total Expenses (line 4, line 11 & line 19)	\$22,054,498	\$21,221,626	(\$832,872)
21	Income (Loss) (line 1 less line 20)	\$554,523	\$1,372,272	\$817,749
22	Extraordinary Item		\$0	\$0
23	Provision for Taxes		\$0	\$0
24	Net Income (Loss) (line 21 plus line 22 & line 23)	\$554,523	\$1,372,272	\$817,749
A	Gross Profit	\$22,054,498	\$21,221,626	(\$832,872)
B	MEDICAL LOSS RATIO	70.57%	66.93%	

Note 1: MRMIB data includes members enrolled after the 15th of the month and retro eligibility information which was distributed from Maximus. Expectation on subscriber months was that balance per DMHC review would exceed the membership count reported by the Plan.

Note 2: Included in the premiums received from MRMIB by the Plan are retro adjustments for prior periods and missing are retros for subsequent periods. The examiners data utilized for the review adjusts for these missing elements causing the minor discrepancy. Amount per Plan is accepted as reported.

Note 3: Adjustment is measured by the difference between the Plan paid claim data base and the amounts reported on the Schedule 6. The adjustment represents corrections to IBNR, DMHC license fee, and UM/QA are not covered under the HFP.

III Summary of Findings

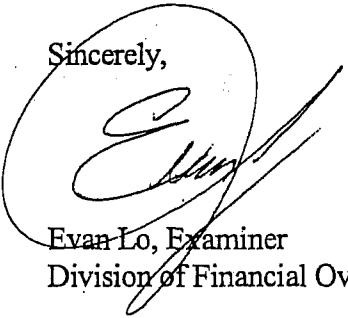
- A Total IBNR overstatement per Plan – (\$611,643)
- B DMHC license fee disallowed – (\$85,732)
- C UM/QA expense not related to HFP – (\$85,732)
- D Payments made for the benefit of ineligible members – (\$49,766)

IV Limitations

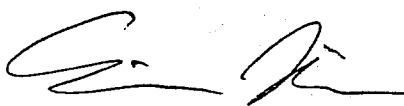
This analysis and report were prepared solely for the purpose of assisting MRMIB in the determination of the accuracy of payments made by SafeGuard on their Schedule 6 Medical Loss Ratio Report. We have not performed an evaluation of the Company's internal controls within the guidelines set forth by the AICPA but have reported to you based upon the procedures performed. Our analysis has not been a detailed examination of all transactions, and cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations that may exist.

Please feel free to call Evan Lo, DMHC Examiner or Steven Mihara, DMHC Supervisor with any questions pertaining to this report.

Sincerely,



Evan Lo, Examiner
Division of Financial Oversight



Steven Mihara, Supervisor
Division of Financial Oversight

cc: Hao Lam, Acting Chief Fiscal Services, MRMIB
Mark Wright, Chief Examiner, DMHC
Stephen Babich, Supervising Examiner, DMHC